Tax Credits That Let You Remake History

State Offsets Give Old-Home Renovators Big Budget Boost

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Special to The Washington Post
Saturday, April 10, 2004; Page F01

Paul Ferguson grew up in the South Arlington neighborhood of Fairlington, a leafy community of brick Colonial-style homes with slate roofs, built to help ease the World War II housing shortage. He wanted to remain there, but after the birth of his second child, he wasn't sure his three-story, 1,800-square-foot unit could accommodate his growing family unless it underwent substantial -- and costly -- renovation.

But because residents of homes on the National Register of Historic Places and the Virginia Landmarks Register, including those in Fairlington, can get a 25 percent credit on their state income taxes for renovations, Ferguson decided to pursue remodeling.

Under the tax credit program, if a homeowner spends $40,000 on renovations, he will reap a $10,000 credit on state income taxes that can be carried over for years.

Because the money can't be used to change the exterior of the structure, Ferguson decided to look upward for space. In 2002, he renovated his attic, turning it into a study and an extra bathroom for his kids.

"The credit was a deciding factor," said Ferguson, who is a member of the Arlington County Board. "It's important because it allows families who are looking for ways to stay in their historic homes a means to do so."

Most homeowners can't take advantage of the 20 percent federal tax credit for historic preservation because it is available only for income-producing properties, but state tax credits can help make residential renovations and repairs easier on the pocketbook. Maryland has a 20 percent credit that is similar to Virginia's 25 percent credit.

Although the District has had a law on the books since 2002 to give restoration credits to low- and moderate-income homeowners in certain historic areas, money has not been allocated in the city's budget to pay for the program.

To be eligible for any of the credits, homes can't be merely old; they must be listed on a state or national register of historic homes or be in a neighborhood that has been designated historic.

Applying for the credits is a multi-step process. Those interested are encouraged to submit an application before embarking on a home-improvement project. Before and after photos of the project also must be submitted.

Tyler Gearhart, executive director of Preservation Maryland, said the state's tax credit "has been by far our most powerful tool for promoting and enacting historic preservation. The tax credit is widely seen as the number one tool for smart growth."

The tax credits can help preserve aging neighborhoods that might otherwise have fallen to the wrecking ball due to neglect, said Patrick Lally, director of federal affairs for the National Trust for Historic Preservation.

"Preservation can often be perceived as an elitist luxury, but historic preservation tax credits can go a long way in helping keep older neighborhoods intact," he said. "Taking care of an older house is inherently more expensive than a newly built one. It's an added level that should not be underestimated and one that homeowners often need help in meeting."

Lally uses his own historic Capitol Hill townhouse as an example. His leaking slate roof cost much more to repair than if it had been covered with more modern asphalt shingles. If homeowners don't have the means to pay more for upkeep, historic homes can fall into disrepair, he said.

The National Trust has worked to extend the federal tax credit program to individual homeowners, but without much success, even though the Historic Homeownership Act has had bipartisan support in Congress.

"The practical problem irrespective of party is the thinness of the budget," Lally said.

Historic preservation tax credits, preservationists argue, not only provide windfalls for homeowners, they also create jobs for contractors, increase property values and taxes, and prevent further sprawl into exurbia.

"One advantage is you've enhanced local property taxes because in some cases, you've taken some shell of an old building that's not raising diddly in revenue and given it a much higher property value," said Donovan Rypkema, principal of Place Economics, a Washington-based consulting firm specializing in economic revitalization of downtowns and historic preservation.

"A really underappreciated value of the credit is that you're not eating up land at the edges of cities, but rather are preserving buildings in the interiors of urban communities," he said.

Here's a look at the credits locally:

Maryland

Maryland homeowners could apply for the credits beginning in 1997. Last year, 310 Maryland owners and 92 businesses applied.

Since the law was enacted, the amount homeowners could take credit for on their tax returns has yo-yoed from 10 percent to a high of 25 percent. For projects completed in 2002 through 2004, the credit is 20 percent. The project must cost at least $5,000 to be eligible.

Maryland is the only state to allow tax credit recipients to receive a check directly from the government to cover the credit. Say a $60,000 project was completed in 2003. The taxpayer would be eligible for a $12,000 tax credit, but perhaps only owes $4,000 in state taxes. In addition to not having to pay the $4,000 that year, the homeowner would also receive a check for the $8,000 remaining in the credit. Most of the 15 or so other states with tax credit programs allow taxpayers to deduct the amount of the credit from future taxes until the money runs out or for a set number of years.

But the future of the program is now in jeopardy. Unless the Maryland General Assembly passes legislation to continue the program by the time the session ends Monday, the tax credit program will stop June 1. As of late Thursday, no action had been taken. "Even though the program is scheduled to sunset this year, the law was written more to take a look at the how the program has been faring rather than shut it down," said Dan Sams, a preservation officer with the Maryland Historical Trust, the state government office that oversees applications for the tax credit program.

A task force on the program set up by Gov. Robert L. Ehrlich Jr. (R) and chaired by William Donald Schaefer, comptroller of the treasury, concluded in February that the program should be extended until 2010. Its report noted, "The program has been extremely successful in revitalizing deteriorated downtowns and neighborhoods, combating blight, creating jobs, strengthening local tax bases, stimulating Maryland's economy and preserving historic resources. Key major projects would not have been undertaken if the credit had not been available."

Preservation Maryland's Gearhart said he is "cautiously optimistic" that the bill will pass the state legislature, although he said he's worried as it reaches the eleventh hour without action.

If the bill does pass, there will be some changes. There will be a cap of $50,000 per project for residential projects, and a cap of $15 million total to be allocated for commercial projects.

The oft-changing law has made applying for the credit complex, said Joy Austin-Lane, who serves on the Takoma Park City Council and owns a 1922 bungalow in the city's historic district, the largest in Montgomery County. Although she has done work on her house, she said she did not apply for the credit.

Still, she is an advocate for preserving the credit, and testified in favor of it before the Maryland General Assembly in March.

"Residents are taking the tax credit and channeling it into a tool that helps preserve historic properties and pumps money back into the economy," she said in an interview. "It's not like they're taking the money and going on vacation to Italy with it."

In addition to the Maryland state credit, several counties and local jurisdiction offer their own credits. For example, Montgomery County credits 10 percent of the amount spent against property taxes paid. Exterior maintenance is covered, but new construction and interior work are not. The Prince George's County credit is also 10 percent and covers many interior and exterior improvements.

Virginia

Virginia's program also began in 1997. That year, there were 86 projects submitted for approval; last year, there were 269.

"The federal credit was so popular and successful in eliciting economic growth and preservation that the state assembly saw the wisdom and began offering a state credit," said Virginia McConnell, manager of the office of preservation initiatives in the Virginia Department of Historic Resources. "We see no disadvantages to the credit at all."

Unlike Maryland, the Virginia credit began at 10 percent and was phased in to the current 25 percent level; there is no provision in the law to phase it out or lower the credit. Property owners must invest at least 25 percent of the value of the house itself in the project. That means if the total value of the property on a tax bill is $300,000, and the worth of the structure is $100,000, at least $25,000 must be spent on the remodeling project.

Like its neighbor across the Potomac, the Virginia credit requires property owners to undergo a three-step application process.

First, they must submit an application that shows the property is certified by the state or federal government as historic and describes the property. Next, the property owners must submit a description of the proposed rehabilitation.

"Ideally, this is submitted before work gets underway so we can make sure the work will meet our requirements," McConnell said. However, those applying for the credit do not have to turn in their application before work commences.

In the final step, property owners must send proof that the work has been completed, including photos of the finished work.

An added bonus is that communities are working to get historic districts listed, McConnell said.

The greatest number of applicants for the credit come from Arlington County, McConnell said. That doesn't surprise Michael Leventhal, Arlington's historic preservation coordinator. In the last year, 70 people applied for the credit, from such older neighborhoods as Ashton Heights, Lyon Park and Lyon Village. Complexes such as Colonial Village and Fairlington have also added to the rise in applications.

"Most people call me up with questions if they can do this or that to their historic properties. I tell them they can get a tax credit, and they say, 'Whoa, I had no idea,' " Leventhal said.

District

The District's program, which is not operating due to lack of funding, is supposed to target poorer historic neighborhoods such as Anacostia, LeDroit Park and Shaw.

If the program were functional, applicants could make up to 120 percent of the median income, about $85,000, according to Lisa Burcham, D.C. preservation director. "The point being, it isn't meant for the Cleveland Parks and Dupont Circles. It's meant for rehabilitation of blighted property," she said.

The law caps the credit at $25,000 per project, and provides a 15 to 35 percent tax credit depending on the location of the property and income level.

"It's a terrific initiative, a terrific tool to spur the renovation of more blighted areas, but the reality is that the city has a fiscal responsibility to find an offset in the budget" to make up for the lost revenue from the tax credit, Burcham said.

Lally, of the National Trust for Historic Preservation, said he hopes District officials can find a way to fund the initiative.

"The ability to keep people in the community, the middle class, the working class, the people dealing with stability issues, is an essential benefit of the tax credits," he said. "It keeps them in historic houses with some incentive stay there."